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Agenda for Management Pioneers

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- Management and the Community
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Wage Stabilization — Principles and Problems

By CARROLL R. DAUGHERTY

Professor, Business Economics, Northwestern University;
Former Director, Division of Wage Stabilization, War Labor Board;
Former Chairman, President's Steel Fact Finding Board, 1949.

Some of the lessons taught by past experience about Wage Stabilization. A well-qualified analysis of the important fundamentals related to one of democracy's most complex problems.

I NEED SCARCELY REMIND you that price controls and wage controls are sometimes called direct controls. They are necessary because in time of war, and during the period of extraordinary expenditure for armament because of fear of war, no government has the fortitude or the political indifference to tax heavily enough to withdraw a sufficient amount of purchasing power from the demand side of the price-level equation, thus making necessary the imposition of these direct controls on the prices of products and the prices of labor.

Anybody who administers a wage stabilization program, as indeed anybody who administers a price stabilization or control program, doesn't have to dope out a brand-new system of wage rates or prices. A wage stabilizer inherits two things. He inherits a structure of wage rates, wage rates for different jobs in different localities in various relationships one to the other, and he inherits a general level of wage rates throughout the country.

And his job, if he tries to do a job, is to keep the general level of wage rates from rising and at the same time perhaps correct any inequities that may have arisen within the general structure of wage rates before the controls were imposed.

Against that background and with these thoughts in mind I should like to address myself to a few of the things that we learned at the War Labor Board from 1942 to 1945.

In the first place a wage program can only be devised and operated in the economic and political context of the time. It is not something that comes from the minds of theoretical college professors, for it must be geared to reality.

In the second place, a wage control program, like any law, must have at least three characteristics. It must have economic sense; it must have political feasibility; and it must be administerable. In other words, a wage rate control program is not only an economic problem; it presents also a problem in human relations, that is to say labor-management relations, and a problem in government.

Third, a wage control program should interfere as little as possible with the normal processes of collective bargaining between management and labor. We have come in this country to believe, most of us, that sound human relations between management and labor are a manifestation and expression of the basic democratic principle of compromise and of living together. Obviously when an authoritarian measure, and it is authoritarian, such as wage rate controls, is imposed, it does things to the freedom to make the economic decisions that come out of free collective bargaining.

Fourth, and this must be emphasized, we learned, of course, the very close and intimate relationship between wage rate control and price control. There is no effective price control in the end without effective wage rate control, and the reverse is true. There is no effective wage rate control without price control at the retail level. I shall come back to this point in a moment.

Another thing we learned, and this is a lesson I shall mention and develop, is that just as product prices cannot be used in wartime to allocate non-human resources and products, so wage rate controls and wage rate increases can't be used to allocate manpower. The problem of manpower allocation, since it involves the movement of human beings, is a delicate one and we had a semi-authoritarian, semi-voluntary system during the last war, mostly voluntary, that worked tolerably well.

We soon learned at the War Labor Board we could not use wage rates as a way of getting labor to where it was needed. If in a community there are 100,000 jobs and 80,000 people, you don't get the labor where it is needed by raising wage rates in plant A. Because when you have increased wage rates in plant A, you have created an inequity for plants B and C and so on, and they will be pounding at your door and asking for similar increases, and in the end all you have done is to increase labor turnover and increased the general level of wage rates in the community.

The way to close the gap between the number of jobs such as 100,000 and the number of workers such as 80,000 is to increase the number of hours worked per week, increase the number of employees (women, young people, and other groups) and increase the amount that each produces per hour.

Now the context in which the wage controls that I am about to describe very briefly were imposed in 1942, was one of intense organizational activity on the part of organized labor. They had made very great organizational gains up until

Adapted from a paper presented to a meeting of the Trade and Industry Law Institute.

1942, but the tight labor market that came with the accelerated defense program and then the war program gave organized labor a great opportunity to unionize additional millions of workers.

One of the ways, of course, you get unions over to workers, is to promise them something and usually you promise them increased wage rates. So it was in part against that background that wage rate controls had to be imposed.

Another thing was a divided labor movement in America, the rivalry among labor leaders to see which could do the best for the workers he was trying to seduce into unions. In other words, with a divided labor movement, with CIO versus A. F. of L. and other independent unions, the problem became much more difficult than it would have been with a united labor movement with some maturity that had had time to develop and impose on itself some voluntary restraint in the matter of the increases they wanted.

In this situation today we still have a divided labor movement. We have, however, labor rather well organized today compared to the degree of organization in 1942. And here is another thing that has already happened today that happened in 1942. When the wage rate controls were imposed they were imposed after certain groups of workers, in fact about two-thirds of them according to the figures of the Bureau of Labor Statistics, had already obtained sizable wage rate increases. In other words, there was a situation in which there were some laggards. About one-third of the employees of the country for lack of organization or for other reasons had not kept pace with the other two-thirds from 1940 to 1942 in obtaining wage rate increases.

The same thing exists today. There is beginning to emerge a pattern of wage rate increases in aluminum, automobiles, rubber, steel, and so on. There have been wage rate increases of various kinds in various agreements voluntarily arrived at by management and labor.

Now characteristic of the agreements that have developed in the last year is the trend started by the General Motors-United Automobile Workers contract, where wage rates rise more or less automatically and keep pace with increases in the cost of living and with the national average increase in labor productivity. These changes, I repeat, become more or less automatic under the contract.

Not all other contracts have been devised in the same manner, but there is always provision for frequent wage rate reopening in connection with the possible increases in the cost of living.

DEVELOPING A "FRAMEWORK"

Now, the War Labor Board's program in the main, and I haven't time to outline its details, of course, had a little social welfare in it, in that (a) there were provisions for certain increases for what we called substandard workers, very low-paid employees, and (b) the increases that were granted by the War Labor Board were granted in cents per hour rather than percentagewise in order to give the largest percentage increase to low-paid workers. Those you may call the social welfare aspects of the War Labor Board program. But for the most part the War Labor Board program was designed to hold down the general level of wage rates through the Little Steel Formula and through a system of preventing increases that I shall mention in a moment, above a certain line.

The task of dealing with the *structure* of wage rates and the inter-relationships among occupational and industry rates was handled by the so-called interplant inequity program, the so-called bracket system whereunder for a given job in a given labor market area no employer or union in agreement with him was allowed to raise wage rates above the so-called minimum of the bracket, the minimum ideally being imposed about ten per cent below the weighted average for such wage rates but actually in practice being determined to be sometimes five per cent, sometimes actually at about the weighted average of wage rates. But whether the line was drawn at the weighted average, five per cent below, or ten per cent below, was not very important (although I must admit it seemed terribly important to me then) because actually there *was* a line beyond which, except in so-called rare and unusual cases, and there were only a few of those for manpower reasons, management couldn't go or unions with management couldn't go.

The Little Steel Formula was designed to give those one-third of the workers who had not received a 15 per cent wage rate increase after January, 1941, the amounts that they still had coming under the 15 per cent formula. In other words, we took the average overall earnings in a given plant and multiplied them by 15 per cent and then deducted from that figure any wage rate increases that had been given since January, 1941, and if anything was available, they got it in cents per hour; otherwise there was no increase under the Little Steel Formula.

So the basic idea of the old wage program was to hold the general level of wage rates by means of the Little Steel Formula and by means of the wage bracket system.

AREA AND INTER-PLANT INEQUITIES

But seventy per cent of the cases that came to the War Labor Board were of the so-called inequity kind, inter-plant inequity kind, that had to do with the relationship of wage rates, one to the other, in a given labor market area.

In the early days, in attempting to hold this inequity wage rate line the War Labor Board at first devised a policy that made a lot of economic sense and a lot of political sense, but it was completely unadministerable. This was because the War Labor Board had approached the program in a piecemeal sense by means of dispute cases; the wage controls were not imposed until September, 1942, but the War Labor Board had functioned since January and had decided a number of important dispute cases.

As a matter of fact, the Little Steel Formula itself was devised from the dispute case that arose between the United Steel Workers and the Little Steel Companies.

It was in the Chrysler case that the inter-plant inequity doctrine of the War Labor Board was made clear.

Chrysler workers came to the Board in the dispute case asking to be brought up to the wage-rate level of the other major automobile companies. The Board denied in this dispute case any increase to the Chrysler workers. They said that it was customary, it was of historical record, that Chrysler workers' rates were lower than the rates paid by Ford or General Motors and, therefore, the Board would not disturb that historical relationship even though in absolute cents

per hour the Chrysler workers were lower.

Now, when the Board was given the job of controlling all wage rates in the country and not only those involved in dispute cases, the Board tried to apply this Chrysler rule. But in order to apply it we had to get information other than those given us by applicants who, of course, were self-serving in the data that they furnished us. We had to get information that was satisfactory to us. That meant in every case going out and making an investigation of wage rates, and there was no organization in the Bureau of Labor Statistics, or any other agency, that was big enough to give us the information in time to make a decision. As a result, if you have no information on the basis of which to say "no" you always say "yes", and when you say "yes", you usually create other alleged inequities. Ten other companies come knocking at your door asking for redress of the inequity you created. As a result we were getting bogged down with unsettled cases in our regional offices. We had a huge backlog of cases, and from those that did get settled the general level of wage rates was steadily moving upward through this whipsawing process.

Consequently, in the spring of 1943 Executive Order No. 9328 was issued from the White House taking this power to remedy inter-plant inequities away from the War Labor Board, a very drastic action. And after various conferences between the Board and Mr. Byrnes and the White House, the bracket system was devised, the bracket system I have already described, setting a line beyond which you could not go.

BARGAINING AND TRIPARTITISM

Now I have said that one of the things we have learned was that collective bargaining should be interfered with as little as possible. At a time when authoritarian controls of some sort are needed the degree of authoritarianism depends on the degree of emergency created by the war situation. The best you can do in a war, the best you will be able to do in this war, is to substitute collective bargaining at the highest level for collective bargaining where it should be done and is done normally in peacetime, at the plant level, substitute collective bargaining at the top level for that lower down. It is an unfortunate thing that one has to do this, but there is no alternative, it seems to me. That means that the Board, inefficient as it may be compared to a single administrator, must be tripartite. There must be public representation to take care of the public interest, but collective bargaining is done on the Board by representatives of labor and representatives of employers. There is collective bargaining done in Washington and in the various regional offices in lieu of the bargaining done directly between management and labor. Oh, there is bargaining of course, at the plant level as to what kind of wage rate increases are desirable and that sort of thing, but if they know there is always a last resort, and there must be a last resort if the controls are to be effective, the bargaining is not very sincere. The responsibility is not on their shoulders for reaching a bargain, it comes in the end to the regional office of the War Labor Board. But tripartitism is the best substitute for collective bargaining, the best way to reserve as much of it as possible.

Now, in conclusion, I should like to say that as things presently look, the best program of wage stabilization is going to be that exercised by the price controllers and not by a Wage Stabilization Board. That is simply because, if the new agreements that are being made before wage stabilization remain in force (under which wage rates increase due to an increase in the cost of living) a major way to hold wage rates down is to hold the cost of living down to whatever extent possible. (There are also provisions for an annual increase in wage rates because of an increase in productivity.) I should think that the Wage Board will be very reluctant to abandon or have labor and management abandon these wage increases in respect to the cost of living increases. That is why I say the real stabilization of wages is going to be coming from price control. I should think that the Wage Stabilization Board will be reluctant to say to companies and their unions you have got to abandon or hold in abeyance for the time being your agreement on the automatic cost of living wage rate increases. It will also be reluctant to cause them to abandon the automatic increases that come with the national average increase in productivity. In peace time the latter kind of wage rate increases can be paid without increases in cost or prices because wage rate increases come out of increased ability to pay; but in wartime, although there may be increases in productivity—and that is doubtful because I don't think there are any great increases in average man-hour productivity in wartime, at least not during the last war—the increases in productivity will not go into civilian goods to a sufficient extent to enable the economy to bear such wage rate increases without inflation.

So the Stabilization Board will have to make its mind up as to whether it wants to permit the degree of inflation that is involved in keeping this part of collective bargaining agreements or else relegate that part of the collective bargaining agreements to a non-operative phase during the war.

Even before the last war there was considerable talk about deferred wages as a way of removing some of the excess purchasing power and bringing demand more into relation with supply at current prices. Here again we have the problem of political acceptability.

I think it would be possible to sell organized labor and the workers in general in a time of total war the idea of having deferred wages. After all, the purchase of war bonds is essentially that sort of thing, and if you couple the deferring of wages, that is, the holding back of wages in a pool which will be given to them after the emergency is over, couple that idea with the certainty that under those circumstances there won't be the same number of goods, durable goods, for example, automobiles, radios, refrigerators and so forth to buy, I don't think there will be too much difficulty. I think it would be politically feasible to do that sort of thing. In this half-way period, however, in which we find ourselves, I have my doubts as to how much could be done.

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Management and the Community—

The Human Factors of Management

By RICHARD H. RICH

President, Rich's, Inc., Atlanta, Ga.

Leadership that inspires the will to accomplish is the keynote for top management.

PARTLY FOR MY OWN education, I have done some research on the development and techniques of scientific management. First, I shall attempt to define those fundamentals which I think form a proper back drop for really good management, and which, in my humble opinion, are essential climate in which successful management must apply its techniques. These fundamentals are in the realm of human relations.

As I understand it, the first concept of scientific management was begun by Frederick W. Taylor in 1880. We have moved a long way since then, as the various types of *organizational* patterns have been studied, clarified, defined, and applied. And it seems to me that we have now reached the point where administrative work is almost a science in itself.

We have developed techniques of *work simplification*, training, wage and salary administration, merit ratings, planning, statistics for quality control and wage incentive plans of all sorts.

All of these techniques formalize my conception of scientific management, and, over the years, they have become more and more refined and more and more valuable in their application through use.

All of the techniques which I have mentioned involve people—they involve human beings and the engineering of human beings—the human side of management is the *catalyst* on which the success of all of our planning and all of our techniques succeed or fail.

We all know that we can make a perfect *organizational plan.* We can understand the most modern methods; we can *train in techniques* to perfection; we can *administer* the combination of our people with equality and fairness; we can plan the *quality and quantity* of our production; we can *select and place* people in the right jobs; we can develop all the *incentive plans* in the world; we can make the most perfect stew with all of the quality ingredients which we have mentioned here — *but* without good leadership that will motivate the individual—without those human qualities which so mix these ingredients that they make a perfect brew, they will all be to no avail.

The "proof of this pudding" is the fact that you have all seen outstanding industrial engineers, people with incisive minds, great ability to analyze and point out faults and make plans on a *consultant* basis; who fail utterly on a line job, due to these intangible qualities of leadership — the qualities that motivate an individual into action — human engineering.

What I am saying, in substance, is that a catalyst cannot work alone any more than an inert ingredient of scientific management can react alone. They must be combined and applied in proper measure and with great subtlety by some human being who has a concept and an understanding of other human beings.

Do not misunderstand me; I do not discount, for one moment, the importance of scientific management. I think that the old-fashioned leader who "plays by ear" has seen his day. I recognize fully that without sound organizational plans confusion exists. And no amount of human understanding or consideration can obtain maximum results. A failure to institute good methods encourages fatigue and frustration. A lack of a definite training program brings a static quality to an organization that fails to stimulate progress and improvement in the individual and in the mass. A failing to understand good wage and salary administration is to assume that good human relations is a matter of mere "lip service" rather than a recognition of worth in kind and in material progress.

Thus, the magnitude, the success of our final results, is good human judgment measured by the extent to which one *uses* these inert ingredients.

Using some of them without others leaves us short of the goal. An unbalanced program is like putting the ingredients for a cake into the cake in unbalanced quantities or proportions. The adoption of some principles and the neglect of others again dooms us to failure, but whether you apply them all or just a few, the greatest measure of success will, I believe, be measured by the enthusiasm and the human understanding of leadership in their application.

People must really perform not because they *have* to perform—not because of fear — not because of necessity, but really because of *desire.* I have an old cliche which I believe is as fundamental as any single sentence. I learned it a long time ago when at college. A professor of Philosophy asked the class: "What, in your opinion, is the greatest thrill in life?" The answers, in a purely male classroom of boys in their early twenties, were as varied as they were ribald. No one answered correctly, in my opinion, except the very wise professor, who said: *"THE GREATEST THRILL IN LIFE IS A SENSE OF ACCOMPLISHMENT."*

This is the motivating force that makes people — businesses — universities — and countries great.

Is not the problem then really:

"How can Management *create and maintain a desire* on the part of its people to improve their performance and to do a better job?"

It seems to me that these are the factors:

1. Fear:
   Yes, I admit that fear has its effect in the background. Fear of poverty — the fear that one will lose his social standing in the community — and also the fear that one will lose his personal pride.
2. Competition:
   The spirit of the game—the ability of a leader to make an employee want "to die for dear ole Yale"— this is the intangible quality that no one has ever defined.
3. Loyalty:
   The loyalty that we can arouse in people—in themselves and in their beliefs—the loyalty that we can arouse in people for the ideas and the objectives and the firm for which they are working —the pride in one's company's position and its leadership — in its chosen field—in its local community—and its national patriotism.

Actually, underlining all three of these factors is the word PRIDE. As I have said, Pride in Accomplishment, Personal Pride (not egotism)—but the feeling that the individual has when he goes home at night — the feeling that says, "I have done something worthwhile today; I am important."

That is one reason why we need standards of quality, production, and conduct, for standards merely provide the measure of accomplishment.

"Have I done a satisfactory job today, a better job, or a superlative job?"

To be able to answer this question with a glance at a chart on the wall is certainly an added catalyst in the stimulation of a human being.

A person who meets the standards of production and quality and conduct, and knows that he can meet them, lives with this pride of accomplishment. His fear is minimized—his loyalty is stimulated—he knows the score as to where he has been and where he is going.

Pride in the company's position and leadership provides for an employee the difference between merely working for money and working for a company for their own future, for the company's future progress, and the community and the nation.

We need more causes.

I have seen engineers frown on this sort of leadership with a cynicism that brands it as a superior type of "cheerleading" or exhortation. They are wrong. For along with all the sharp tools of management which I have given you here, and which you can all read in the books, is the desire that people have for a "cause," for a reason, for inspiration. Why Billy Graham? The people of this town have their own churches and their own religious leaders and yet, thousands upon thousands flocked to hear Billy Graham because those thousands heard a message of inspiration to them—they heard a cause glorified—their emotions were appealed to—they were stimulated.

Now, pride of accomplishment is so basic and native in the human breast that with new tools, properly applied, it is relatively *easy* to obtain—but pride in a *company's position*—in its leadership—the glorification of working for that particular company, is very much more subtle and more difficult to attain.

This is a project for Management, and Management alone, and there are no specifics, no tools, no scientific measure of ingredients.

It starts, as I see it, with Character and Sincerity. People often ask me to recommend to them a good Public Relations Counsel. My answer is: "You don't need one, for a good public relations counsel is merely an editor — he knows more what *not* to do than what to do, and the real basis of good public relations; in fact, of good human relations, is sincerity and character — for good public relations is merely a mirror that reflects the character, the activity, the quality, and the accomplishments of an individual or a company. It is a "Way of Life," and since top management is the emblem or the signature of an institution, it is the specific responsibility of Top Management.

It therefore becomes a primary duty and need that this leadership manifest itself in all of the areas of human accomplishments so that the reflection of the mirror spontaneously places these individuals on a pinnacle of *respect* and *affection* in the minds of those who must follow him.

I say there are no specifics—because there are many paths which one may take to accomplish these ends, but a few of the obvious ones are:

1. Participating in civic affairs, by taking a lead in the community in such things as the Community Chest, the Red Cross, our Chamber of Commerce, and our various educational and eleemosynary institutions.
2. In taking such leadership, he provides not only money but his personal interest, his personal time, and even his physical facilities.
3. He is interested in other people; he is interested in politics—not in the narrow, partisan sense, but in the broad sense of making this community and this state and this nation a better place in which to live.
4. He is interested in ideas, and he overcomes his reticence and "sticks his neck out" by believing in these ideas and by preaching them.

If he does all these things, he need not seek publicity, for he *makes* news. For those who deal in publicity as their livelihood need news on which to survive—and thus is reflected the character and the activities and the accomplishments of the individual and of the business with the accuracy of a mirror.

Therefore, if a leader feels the proper responsibility to the people under him, to the people around him, and to the people above him; if he feels answerable to them for what he does; if he shows a deep desire to live up to their expectations of him and to exceed these expectations — then they, and the community, find him dependable and will look to him for leadership. He will not have to assume it. Thus, business leaders today who are outstanding in their field are making their decisions on a far broader basis than at any time in the past.

They are realizing that they have a responsibility not merely to their stockholders but to their employees and to the public and to their community and to their nation.

Unless his decisions can stand up under these tests, a true business leader is failing in his responsibilities.

Dean Donald K. David, of the Harvard Business School, expresses this thought very simply when he says:

"An important characteristic of the business leader is the *instinctive* acceptance of responsibility — responsibility not only toward his business but toward his community—his nation—and, even the world."

Communications — What Are Employees *Really* Interested In?

By PETER F. DRUCKER
Industrial Economist

Are employees really interested in the things employers assume they are? This vital link in the chain of communications undergoes a penetrating and scientific appraisal. A course is charted toward the essential prerequisite for any program.

IT IS NOT ONLY because I am not a technician that I shall not today talk about techniques. Techniques are important. But it seems to me that the basic problems in communications today are not technical problems and cannot be solved by technical means. I believe that we have to think through the fundamentals—and I believe above all that what is wrong with communications is precisely that we have not done so but have rushed into techniques before we knew what we were doing or why. Specifically I wonder whether we really know at what we are aiming, whether we have thought through our assumptions and above all whether we really know what we mean when we say "communications." The target of communications, the basic assumptions underlying our present efforts and the concept of communications itself all seem to me to be open to serious questioning.

Last summer I watched a young plumber put in an electric pump in a farmhouse up in New England. The young man had never before done such a job and relied exclusively on the manufacturer's instructions which were very poor instructions indeed: badly printed, almost incomprehensible in spots, with blurred and confusing drawings, etc. It took the young man quite a while to get through the instructions—he had to read them again and again. In addition at several points he felt very definitely that the instructions were wrong. Yet he not only took the trouble to study the instructions till he understood them; he followed them even where he thought that they surely could not be right. When he was finally finished and when the pump ran much to his surprise—he turned to me with a broad grin and said: "Guess they know their business."

Can you imagine a similar attitude in respect to what we normally call "management communications": a company's annual report, a letter from the president, "economic education" and all the other stuff that pours out from our managements today? What is the difference between the attitude of my plumber-friend up in New Hampshire and the typical attitude of our employees—and that incidentally would include the young plumber I am sure—regarding "management communications"? In respect to technical information regarding its product, its processes, its tools and its techniques management obviously has no communications problem whatsoever. It is looked to, listened to and followed. Yet from the point of view of communications techniques—the area on which we have been putting so much emphasis—these technical areas are actually extremely difficult. In fact the technical problems in these areas cannot be solved satisfactorily.

REPUTATIONS MUST BE EARNED

I submit that the difference is simply that the people as a whole including our employees accept management as both competent and authorized in the technical area. They consider management to have legitimate authority in these areas. And, like my friend the plumber in New Hampshire, they feel that "management knows its job" in these areas. Therefore they are not only willing to listen; they are willing to work hard to understand what management is saying. There is no resistance to management's message. There is receptivity. For there is the conviction that management is rightfully an authority in these areas and that management is competent in these areas.

In the areas in which we are interested: in the economic, political and business areas, it is only too obvious that management does not enjoy such standing today—in fact it is obvious that management never has enjoyed such standing. It is quite clear that a great many people, people incidentally who are in full agreement with the things management says, do not feel that management has any legitimate authority in these areas. Even less general is the conviction that management has competence in these areas. This would lead me to conclude that there cannot be receptivity in these areas. For nobody listens to somebody who neither has competence nor authority for him.

I would therefore first raise the question whether there is any point in going after the objectives which so many communications programs today seem to aim at: "employee education," "employee information," "changing the thinking of the employee"—let alone such queer targets as to elect a Republican Congress or to get a lower tax load on business. I am not quarreling with any of the objectives themselves. But I am wondering whether we can hope to reach any of them or whether all the money and effort

Adapted from a paper presented at the Annual Conference of the Public Relations Society of America as reported in the *Public Relations Journal*.

we spend today is totally wasted unless we concentrate first on establishing management's authority and management's competence in these areas. Unless we convince the employee and the public that management has a right to speak in these areas and that management has something worthwhile to say in these areas, we will not, I believe, make any headway toward the more ambitious goals such as "changing the employee's thinking" or "educating the employee." To my mind this means that the first and major objective of a communications program cannot be to "get anything across" but to establish respect and receptivity for management. And that, while a very much more modest, is also probably a very much more difficult target to hit—and one which, I believe, we have not yet even started to approach.

DOES THE FOUNDATION EXIST?

This leads me to the question of our assumptions. When I look at management's communications programs today, especially at those directed at the employee, they seem to me to be based on two assumptions: the first one is that the listener, whether he be employee or general public, considers the same things to be important and relevant that management considers important and relevant. In fact the assumption is general that the listener is interested in these things: profits, prices, wages, efficiency, free enterprise, etc. The second assumption seems to be that the listeners, or a fairly large number among them, are hostile to the American free enterprise system and are at least slightly infected by collectivist doctrines.

I submit that there is absolutely no basis for either assumption.

We cannot assume that the listener is interested in business or economic facts or business or economic theories. We can assume, on the basis of our research, that the average employee is quite interested in the immediate happenings in his own company, particularly those that affect his own work and his own job. But that is all we can assume. Specifically we cannot assume that the individual employee or the individual member of the public sees things the way management does. By this I mean that management for instance concludes from the need of its own company to make a profit to the iniquity of heavy taxes or to the virtue of the profit system. In other words management makes a general and abstract conclusion from the concrete facts of its own business. And to management this general and abstract conclusion seems to follow inescapably from the concrete experience it has. Let me say that we know that the individual employee and the individual member of the public sees no such general and abstract conclusions to follow from the concrete example of the individual company's need for profit. In fact to him the individual and concrete events of his own company have nothing whatsoever in common with general matters of national policy. He may, in other words be fully convinced of his own company's need for more profit and yet feel deeply that profits nationally are too high, or that profits in general are unjustifiable. To him there is no contradiction. In other words we must not assume as we seem to do that the individual employee or the individual member of the public is just an illiterate member of management.

WHO IS INTERESTED AND WHY?

But we also must not assume that the things that are important to management are important and relevant to him. Frankly I am very unhappy over the basis on which so much of our present communications effort is carried out. The basis seems to be a conviction that this is what the people, the employees, the stockholders, the public, are interested in. This is simply not true. The people who are interested in this—and for very good reasons—are the management. If we only were to admit to ourselves for instance that a knowledge and understanding of the economic facts of life is necessary from the point of view of management — and from no other point of view—I think we would be on very much firmer ground than we are today. We would for instance give up the childish and I believe totally silly complaint that "our workers know no economics" or that they are "misinformed." Why should they know any? What difference does it make to their lives whether they do or not? It makes a great deal of difference to management; and therefore management has a perfectly legitimate interest in getting these things understood. But let's stop making childish assumptions such as that the employee inevitably and necessarily is interested in these things and concerned with them. Management is interested and concerned with them. And it is management's job to create sympathetic understanding for this interest and concern.

WHOSE DIAGNOSIS?

It is I think this misunderstanding that underlies our assumption which also explains the queer belief that we deal with people deeply infected by collectivist ideas who have to be "cured." I think anybody who has had any contact with the American worker knows that this is utter nonsense. There are no collectivists among them. To assume, as so much of the more blatant management propaganda does, particularly in the economic field, that the American worker suffers from either ignorance or delusions is just to abandon in advance all hope for effectiveness. And yet, if you look at the stuff management puts out—let alone the stuff management organizations such as the N.A.M. or the Advertising Council put out — you would find that eighty percent of it or so is somehow based on this assumption that we have to "reform" the American public.

MAIN TARGETS

But the area where I am most dubious is that of the concept of "communications." When people talk about "communications" today they seem to mean by that the formal communications media such as company magazines, annual reports to employees, company letters and company advertisements, etc. Actually I sometimes wonder whether these things have any importance. Certainly they have only a very subordinate role. They are not the center of the "communications" between company and employee. And you certainly cannot achieve anything in and through the formal communications media that you do not accomplish in and through the actual process of communications.

Communications is simply a phase of employee relations. And we know that employee relations are being made whenever company and employee have any contact, that is primarily on the job and in the work. Similarly communications take place every time the employee and the company are in contact, that is every moment of the job and work period. Formal communications are necessary to formulate and bring out

communication that has actually taken place in the day to day relationship between man and boss and man and company. But if formal communications do not do that, if they either preach something which is not lived in the day to day relationship, or if they deal with something that is irrelevant to the day to day relationship they will be utterly ineffectual and may actually do a good deal of harm.

I submit that we are not today considering the real communications. We deal with the minor things on the periphery. If we are really concerned about communications we should look at our day to day policies and our day to day practices. Do they get across to the employee the things about the company, the management, our free enterprise economy and our society that we believe the employee ought to get?

GETTING AT THE ESSENTIAL ELEMENT

It is at this point that my own interest in communications actually begins. But I shall not today go into these matters. I would only like to say today that I would start an analysis of the concrete communications of your own company not with your formal communications program—in fact I would not pay much attention to it. I would start with such questions as: do you have a union relations policy that is likely to get across to the individual employee an understanding of the economic facts of life and a conviction that he has a stake in the free enterprise system and in the prosperity of his own company? I would raise the question whether in your day to day policies and practices on the job you get across to the employee the things which your formal communications system wants to get across to him. Above all I would raise the question whether your policies, inside the company, outside the company, in relation to labor, etc., create that respect for management and that acceptance of its authority and competence which is to my mind the very first prerequisite for any communications whatsoever.

MANAGEMENT BOOKS

Recently Received

Paying for Defense, 48 pages, The Research and Policy Committee, Committee for Economic Development, McGraw-Hill Book Company, New York City.

Speaking Can Be Easy . . . for Engineers, too, 24 pages, Engineers' Council for Professional Development, 39 West 39th Street, New York City, $.50

American Express, A Century of Service, by ALDEN HATCH, 278 pages, Doubleday & Co., Inc., Garden City, New York, $3.50

The Wage Adjustment Board, by Dunlop & Hill, 166 pages, Harvard University Press, Cambridge, Massachusetts, $3.50

Coordination Between Engineering, Production and Sales, 24 pages, American Management Association, New York City, $.50

The Job of the Company President, 23 pages, the American Management Association, New York City, $.50

Appraising Managerial Assets—Policies, Practices and Organization, 27 pages, American Management Association, New York City, $.50

Maintaining Two-Way Communication, 42 pages, American Management Association, New York City, $1.00

The Human Relations Job of Personnel Management, 40 pages, American Management Association, New York City, $.75

Performance Rating and Job Analysis for Sales Personnel, 25 pages, American Management Association, New York City, $.75

Controlling Indirect Labor and Maintenance Costs, 22 pages, American Management Association, New York City, $.50

Operating Under Non-Occupational Disability Laws, 22 pages, American Management Association, New York City, $.50

The Dollar Shortage, by CHARLES P. KINDLEBERGER, 276 pages, John Wiley & Sons, New York City, $4.00

Personnel Problems Under Mobilization, 62 pages, Personnel Series No. 135, American Management Association, New York City, $1.25

Wage Policy and Problems in a Preparedness Economy, 35 pages, Personnel Series No. 136, American Management Association, New York City, $1.25

Greater Production: Its Problems and Possibilities Including a Full Treatment of Incentives, by WALTER SCOTT, 685 pages, Angus & Robertson Ltd., 89-95 Castlereagh St., Sydney, Australia, $7.32

Individual Initiative in Business, by GEORGE H. ALLEN, 255 pages, Harvard University Press, Cambridge, Mass., $3.50

Technological Applications of Statistics, by L. H. C. TIPPETT, 186 pages, John Wiley & Sons, Inc., New York City, $3.50

Motion and Time Study Principles and Practice, by MARVIN E. MUNDEL, 457 pages, Prentice-Hall, Inc., New York City, $6.65

Minnesota Manpower Mobilities, 52 pages, Industrial Relations Center, University of Minnesota Press, $1.00

The Program of the Industrial Relations Center of the University of Minnesota, 29 pages, University of Minnesota Press, Minneapolis, Minnesota.

Personnel Salaries and Ratios in 1950, by DALE YODER and L. P. NELSON, 4 pages, Industrial Relations Center, University of Minnesota, Minneapolis, Minnesota, no charge.

The Human Group, by GEORGE C. HOMANS, 484 pages, Harcourt, Brace and Company, New York City, $6.00

Making Business Decisions

By J. O. KAMM

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Do decisions force themselves on executives? Can scientific plans and accurate figures forecast correct action?

THE ECONOMIST HAS his own ideas about how businessmen make their decisions. Actually the economist often fails to take into consideration many of the influences which affect the actions of officers and directors of business firms. It is the purpose of this article to summarize some of the data which business managers use in making decisions.[1]

BASIC INFLUENCE OF PROFITS

An officer or director of a business firm typically regards the making of profits as an indication of a successful business operation and the experiencing of losses as an indication that something is wrong in the business. We live in a profit and loss system and although profits generally receive more emphasis in economics and business, losses are no less significant to the businessman.

Business losses are of two major types: (1) temporary; and (2) chronic. Business people expect that almost every firm will experience losses at some one time or another. Firms whose very names are the byword for successful business management such as General Motors and General Electric may have losses for a year or so due to a long-drawn out strike, reconversion from war to peacetime operation, or extreme depression such as occurred in 1932. But these losses are temporary in nature and management being flexible and capable finds the causes of firm losses and works to return operations to a profitable basis.

A second type of loss is that which is more-or-less chronic. A firm may operate at a profit during war periods when output is sold to government, or the scarcity of goods largely eliminates price as a deterrent to sales and enables a company to sell its products, which under peacetime competitive conditions would be impossible. Where a firm has chronic losses, it is merely a question of time until it is out of business or reorganized. This type of loss may occur because of a shift in the sales trend (for example, steam to Diesel locomotives affected adversely companies making only steam locomotives); because of severe competition from a new product (the automobile has caused much of the railroad problem); or it may take place because of internal conditions such as poor management.

Losses caused by conditions external to the firm may be offset by diversifying the company's products and operations; by advertising to reverse the trend; or by completely changing to new products. Losses caused by internal conditions such as management weaknesses are ordinarily more easily corrected. But even in cases where management is poor, presiding officers have at times been able to continue for years managing an enterprise because stockholders are disorganized or disinterested. However, in recent years continual losses have been the sign for strong action by large stockholders, directors, or by other representatives of shareholders. Brokerage firms and investment trusts have been helpful in effecting management changes.

The occurrence of losses causes directors and others to analyze company affairs. Often what appeared to be minor problems are found to represent serious difficulties. Changes in officers may only be effected through bitter proxy battles; but many times they occur with little or no announcement to either shareholders or the public. Profits and losses have a significant influence on officers and directors of corporations in their deciding company problems and policies.

OTHER FACTORS

Management's business decisions are affected by other considerations such as the firm's prestige; the welfare of employees, the public, and stockholders; and competitive conditions. In many instances these considerations arise subsequent to the establishment of a favorable profit base. Losses have prevented many welfare programs from being adopted and have wrecked others already operating.

Successful firms are more willing to improve employee conditions because they are more able to do so. In attempting to maintain favorable profit levels management becomes cognizant of the importance of worker satisfaction. Welfare, pension, and incentive wage programs are intertwined with labor efficiency. Management introduces such programs in many instances because competitors have done so. Labor efficiency would be affected if workmen were lost to these competitors. In other instances management initiates these programs to better labor efficiency. Improvement of employee goodwill often results. Or by paying somewhat higher wages than competitors a firm is able to select the better workmen from the field.

Corporation officers and directors in some cases improve employee working conditions, better equipment, and maintain plant with no expectation of having the expenditure of funds repaid from lowered operating costs. A new office

[1] This line of approach was suggested and encouraged in *Cost Behavior and Price Policy*, New York, National Bureau of Economic Research, 1943, p. 169.

building may not cut clerical costs nor bring additional business to the firm. Actually costs may rise through increased depreciation. But management may desire the building merely because of its pride in the company—a desire to see the company represented by a presentable building.[2]

Directors and officers make decisions on many different problems. But for purposes of analysis we are limiting our study to business decisions involving expenditures of funds on research, equipment, or plant. What are the problems and considerations which directors face? Where do they turn for information on which to base decisions? Are they certain their decision is correct? These are questions which we shall attempt to answer from our study of business decisions.

For our analysis business decisions may be divided into three basic types: (1) those which involve little guesswork concerning results expected to be achieved; (2) those which on the basis of available data offer reasonable expectations of success; and (3) those which may or may not yield worthwhile results.

There are many business decisions which are easily arrived at because very little probability of loss exists. This is especially true of decisions to purchase mechanical equipment already tried and proved in other companies' operations. Equipment companies typically send their sales engineers into the field to make actual surveys of how much saving will result from the use of their products. The estimates made in such surveys are for the most part carefully arrived at and if anything on the conservative side.

Even where the equipment is specially designed for one company engineers are usually able to estimate accurately influences on costs. Often the opinions of sales engineers for equipment companies are checked with the opinions of its own engineers. And if some doubt still remains in the minds of management and directors, outside consultants are employed to render a third opinion.

Our study of business decisions is limited to those which are either expected to cut costs or increase profits. We assume therefore that the purchase of new equipment by a business firm is effected because such purchase is expected to cut operating costs.[3] This assumption applies to the purchase of an office calculator or a Diesel locomotive.

The purchase of standardized equipment the design of which has remained unchanged for several years will be made (in addition to replacement needs) when wage levels increase, when labor efficiency decreases, or when a shortage of labor threatens loss of sales and profits. Newly developed equipment, however, which is designed to cut costs under existing operating conditions does not depend upon increases in labor costs to bring about its sale.

Some variation in the above results are expected from those estimated because two years had passed from the time of the original estimate. Instead of the estimated 118 pounds of coal being equivalent to one gallon of fuel oil, it was found that 117 pounds of coal equaled one gallon of oil. The Diesel operating cost represented a reduction in steam cost of 40.24% versus an estimated 34.30%. Economies over and above those expected were realized in labor costs and fuel costs. The cost of lubricants and repairs were larger than forecast probably because of the heavy use to which the switchers were placed. The actual savings which result from Dieselization vary with fuel costs, weather conditions, track grades, and use.

The economies of Diesels were substantiated by the actual tests. The officers therefore recommended and the company's directors approved a program of complete Dieselization of the railroad's switching and transfer locomotives.

The introduction of new products in recent years has opened many opportunities for replacement of existing operating methods. In some firms so many cost reducing expenditures are open to management that the question becomes which should be done first. Although priority is usually determined by those improvements which will most quickly repay initial expenditures, other considerations such as amount of the expenditure, intensity of improvement use, labor conditions, price and sales trends, and availability of equipment influence the final decision.[4]

An illustration of an actual business decision based upon a Diesel locomotive manufacturer's survey of the saving which its product would effect describes the basis on which officers and directors arrive at their action.

A Diesel locomotive manufacturer studied a railroad's switching operation with a view to replacing steam locomotives with Diesels. An on-the-job analysis of switching conditions was made. The conclusion of the locomotive manufacturer was that every five steam engines could be replaced with three Diesels because of the greater utilization of the latter resulting from reduced maintenance, elimination of putting water in boilers, and avoidance of similar time consuming functions. Whereas steam locomotives were returned to the roundhouse after every assignment for coal and water, Diesels required no water and needed refueling only every fourth day. The preliminary study estimated that one gallon of fuel oil was equivalent to 118 pounds of coal. The estimated reduction in operating cost was 34.3%. The report prepared by the sales engineers of the Diesel manufacturer is shown in Table I. (See page 12)

The locomotive manufacturer's estimate was checked over by the railroad company's vice-president in charge of operations, by the executive vice-president, and by the president, all of whom had company engineers available for checking any specific data. The officers of the company then recommended to the board of directors the purchase of switching Diesels. The directors approved the change on a gradual basis. The initial order was not to be followed by other orders for Diesels until adequate experience substantiating the Diesel manufacturer's experience was available. If the Diesels did not work out as expected, further checks were to be made.

A comparison of the actual economies achieved compared to the estimated ones was subsequently made after the Diesels were operated for a period of six

[2] Cf., Gordon, R. A., *Business Leadership in the Large Corporation*, Washington, The Brookings Institution, 1945, p. 327; also, Nourse, Edwin G., *Price Making in a Democracy*, Washington, The Brookings Institution, 1944, p. 99.

[3] It may be purchased, of course, to better labor conditions, to comply with a governmental ordinance (for example, smoke abatement equipment), or to satisfy some other purpose.

[4] See Gordon, *op. cit.*, p. 322.

Table I.

COMPARISON OF ACTUAL STEAM VERSUS ESTIMATED DIESEL ANNUAL COSTS OF OPERATIONS

(In terms of relatives based upon 1947 costs)

Operation	STEAM: each cost as a per cent of total steam costs	DIESEL: each cost as a per cent of comparable steam cost
Locomotive repairs	15.76	30.16
Conductors and brakemen	31.44	100.00
Enginemen	19.76	100.00
Fuel	19.99	28.90
Water	.75	0
Lubricants	.48	122.36
Other Supplies	2.50	100.00
Enginehouse Expense	9.32	8.51
	100.00	65.70

months; and the results are shown in Table II.

Business decisions of type I are those which involve little risk of error. In most cases they are based upon new equipment changes which have either already been proved by experience of the purchaser or by other companies or are mechanical changes for which the results can be rather carefully estimated. In the case of the business decision described herein, the estimates were made in early 1948, the trial purchase authorized in August 1948, the Diesels put into service in the spring of 1949, and the subsequent Diesel order placed at the beginning of 1950.

Sometimes it is not possible to make accurate estimates as to economies to be effected by introducing new equipment. This is especially true where the equipment proposed is so new as not to have been tried elsewhere, or if tried only on a limited scale. Business decisions concerning the purchase of such equipment are much more difficult to make.

Where plant and equipment are purchased and erected for the purpose of making a product by means of a chemical process not widely used or accepted, management and directors have a more serious problem than with accepted mechanical improvements. Usually, however, where such expenditures produce successful results, the return is materially greater than on expenditures involved in type I business decisions.

An illustration of a business decision of type II is taken from a company in the lime producing industry. This company was faced in 1945 with replacement of two-thirds of its kilns used to produce quicklime. Along with other traditional kiln installations the company's officers studied Azbe kilns used by producers in Canada and the United States. These kilns were not widely used, but the designer claimed that they were much lower cost lime producers than the typical shaft kilns. At a time of rising labor and fuel costs it was natural that the company officers surveyed Azbe kilns and their possibilities. Reactions of users were generally favorable but qualified. Suggestions were offered by users as to improving Azbe kiln operation.

On the basis of a rather thorough study the president, vice-presidents, and company engineers prepared a report recommending the erection of several Azbe kilns. An increasing labor shortage was an important influence on the management's position. Azbe kilns are shaft kilns which burn producer gas instead of coal. Limestone crushed to size enters the top of the kiln and progresses downward emptying from the kiln bottom as quicklime. Lime is produced on a more-or-less continuous basis whereas in the old shaft kilns, the kilns were charged periodically and lime drawn off on the same basis.

The officers' report pointed out that costs would be reduced if the proposed kilns were erected and operated as expected. Coal would be mechanically handled from car to gas producer; converting coal to gas would result in greater coal efficiency; tons per hour of production of the Azbe kilns would be greater because forced rather than natural draft was to be used; and finally production efficiency (tons of lime per manhour of labor) would improve.

Company directors (other than officer directors), most of whom were familiar with problems of lime production, when presented with the report raised some questions as to past successes of Azbe kilns. They decided as a result of the doubts expressed to call in outside engineers to study the entire proposal and report back to the board of directors. Their report was made three months later and substantiated the management's report. The directors then granted approval of the project.

One year was required to complete the kilns. Built on a cost plus fixed fee basis each kiln's cost increased from an expected $50,000 to $150,000. This naturally affected the expected return per dollar of investment. Yet rising labor costs also indicated that the efficiency of Azbe kilns would be greater per dollar of labor cost than was anticipated, providing the kilns operated successfully.

Completion of the kilns found com-

Table II.

COMPARISON OF ACTUAL STEAM VERSUS ACTUAL DIESEL ANNUAL COSTS OF OPERATION

(In terms of relatives based upon 1949 costs)

Operation	STEAM: each cost as a per cent of total steam costs	DIESEL: each cost as a per cent of comparable steam cost
Locomotive repairs	14.31	42.10
Conductors and brakemen	33.55	83.28
Enginemen	21.69	83.27
Fuel	18.38	16.33
Water	.86	0
Lubricants	.51	282.00
Other supplies	2.67	100.00
Enginehouse expense	8.03	7.49
	100.00	59.76

pany supervisors experiencing production difficulties, for the proper mixture of coal gas, oxygen, and limestone was not being obtained. The proper mixture could only be gained by actual experience, for quality of coal, size of kiln, grade of limestone, and similar factors influenced production.

For two years operating costs indicated that the new plant had not justified itself. The following table portrays the operating costs and reflects the management's problems of getting the kilns into efficient production. (See Table III.)

The new kilns produced (after three years of operation) twice as many tons of lime per manhour as the old type kilns. It was not until three years of operation that the expenditure was justified, for the first two years were largely spent in experimentation with mixing the gases and raw materials to get the correct chemical reaction. This type of business decision requires much more care than does type I. Checks by outside parties are desirable. Patience is required on the part of management and directors to give sufficient time to work out operational problems. Risk of loss is material, for projects do not always prove successful. If they do not succeed, equipment installations bring little more than scrap value.

LONG RANGE FORECASTS

Officers and directors of companies are sometimes faced with making business decisions which involve a high degree of uncertainty.

E. I. du Pont de Nemours & Company has found it necessary in developing such new products as Nylon and Orlon to risk millions of company dollars. It was not certain at the time of project authorization or at subsequent dates when research expenditures were granted that a commercially acceptable product would be developed.

It is often said that the typical new product takes eight years to develop and prepare for sale to the trade. Executives and directors may optimistically and willingly make expenditures for research during the early stages of a project but continue grants (needed to carry research to fruition) in later years reluctantly (if at all). Once a company's management is able to supervise the development of a profitable product, directors become more willing to back executives in other projects.

An example of this type of decision is found in a research project action undertaken by a medium sized corporation. Both management and the board of directors realized the need for product diversification to stabilize sales and income and to broaden profit margins. Approval of the project was given by the directors eight years ago. Annual grants were made in subsequent years to continue the project the objective of which was to produce a commercially acceptable incombustible positive fire retardant acoustical tile.

10,000 different tests were conducted of all types of materials until finally after six years a satisfactory tile was made of magnesium oxychloride base. An additional two years were required to test the tile in actual buildings under various conditions of sound, humidity, structure, building vibration, and design. Market tests were conducted to find the most satisfactory marketing procedure. And after eight years orders were accepted for the new product. The total spent on research during this period equaled 10% of the company's net income. Returns already being obtained indicate that the research costs will be repaid in approximately three years from the sales of the new product.

Business decisions are not always as easily made as might appear to shareholders or to the public. Considerable responsibility rests on the shoulders of officers and directors. Management screens its proposals; the board of directors, the management proposals. Often outside consultants are called in to advise.

We have seen that business decisions on capital expenditures and on research can be classified into three groups on the basis of uncertainty involved in the outcome of the expenditure. Although economists tend to reduce business decisions to those which augment profits and those which reduce losses, we find in practice that businessmen often make decisions the outcome of which cannot be forecast with any degree of accuracy. It is true that they attempt to measure possibilities times probabilities but even here there is a vast twilight decision zone where uncertainty as to final results rules.

Businessmen sometimes take greater risks (for example, types II and III) in an attempt to pull a company out of a serious deficit position. Failure of projects to materialize as hoped may force a firm out of business. Success of projects may restore a firm to a sound financial position.

A study of business decisions leads one to the conclusion that management of business is in part a science and in part an art. A study of decisions in retrospect leads one inevitably to the conclusion that keen-minded executives and well-informed directors, all of whom have both a progressive spirit and common sense, are much to be desired in the business world.

Business decisions for the purpose of increasing profits are often intertwined with other motives. But even where the decisions are ostensibly made to augment profits, uncertainties present in many business projects do not assure business leaders that profits will be attained. Projects which have been failures are not publicized. They are absorbed out of firms' profits if such are existent. Schumpeter believed that profits resulted from innovations; but there is much to support the view that innovations themselves are in turn subsidized out of current profits. This study has attempted to provide some data on business decisions and how and why they are made. The average economics student gains little insight into the trials and tribulations faced by business leaders, for real world solutions are not so simple as textbook diagrams lead one to believe.

Table III.

COMPARISON OF PLANT COST PER TON OF AZBE KILNS WITH OLD TYPE SHAFT KILNS, 1947-1950

(1947 Old Type Shaft Kiln = 100)

Year	Azbe Kilns	Old Type Kilns
1947	186.3	100.0
1948	114.4	124.6
1949	100.0	143.5
1950	94.9[2]	—[1]

[1]Not in production. [2]For January, 1950, only.

Distribution — Target for Cost Reduction

By H. W. MORROW

Manager, Lubrication Sales, Sinclair Refining Company

Distribution — in war or peace — offers sizeable targets for cost reduction studies.

MORE PROFITS ARE an essential, if jobs are to be provided, if products are to be improved, if we are to carry the standard of world freedom. Can any significant part of those profits be derived from improved sales and distribution methods and if so, how? I think the answer is an unequivocal "Yes!"

Let me combine "selling methods" and "distribution methods" under one heading and call them "marketing methods." "Distribution" can have a variety of significant meanings, but in the sense in which I shall use it, it is "marketing."

Marketing is the process of transferring goods and services from the producer to the consumer. This involves three primary factors—the goods which are sold or marketed; the people who buy them and sell them and the acts or operations by which they are transferred. In considering the possibilities of making more profits by improved marketing methods, we must work with these three factors—goods, people and operations.

The formal study of marketing is less than 50 years old. While it is evident that unorganized research must have been going on for centuries, organized research started in 1911, considering marketing as part of the general field of economies. As a result of these investigations we have some pretty well documented information about marketing costs which produce rather interesting figures. A basic cost figure to bear in mind is that on the whole, marketing costs amount to between 50 and 52% of the total cost of producing and marketing goods. Individual products vary from these figures quite materially, of course. As examples, the cost of marketing bread products was found, in one study, to be 51.5% of the total cost of producing and marketing; marketing California oranges cost 60.5% of the total; cigarettes 68%; coal 82% and packaged drugs and cosmetics 83%. The cost of marketing is considered to include wages, salaries, rents, freights, taxes, advertising, insurance, depreciation of equipment, postage, telephone and electricity, It should be noted that the prices of these things generally change more slowly than commodity prices, so the *relative marketing cost* varies inversely with changes in the price level. Thus, when commodity prices are rising, marketing costs decrease relatively; and when commodity prices are falling, marketing costs increase relatively.

COMPARING COSTS AND SERVICES

It is believed that marketing costs have increased during the past thirty or forty years. It would be surprising if they had not in view of the increased number of people engaged in marketing, the increased services rendered consumers, the greater distances products are transported, the large sums spent for advertising, the expensive fixtures used by retail stores, the duplication of delivery routes and selling effort, the amount of shopping done by consumers, the amount of time salesmen are idle waiting for customers or interviews, the greater expense to travel and many similar factors. This does not necessarily mean that consumers are injured by such increased costs, because other forces come into play which may tend to offset such increases, or increase the time or place value sufficiently to serve as an offset. For example, producing goods in localities especially adapted to their production, in large or efficient plants, may establish production costs low enough to more than offset the increased marketing costs.

The important question is, — "Are marketing costs too high?" If so, and the general assumption is that they *are* too high, then we have one fertile avenue to tread in our search for more profit. However, we should be warned that while this road has possibilities it likewise has pitfalls. We generally consider one who reduces costs as a benefactor, but opposition to improvement is frequently raised by those who may be injured. Reductions in cost are likely to involve a reduction in the number of workers, who will object. Some retailers, such as chain store operators, developed a method of marketing involving large scale operations in buying and advertising, which reduced costs. They called this process "integration." The opposition to such stores has been so great that many states passed laws imposing graduated taxes on chains, in order to offset their savings and prevent them from reducing prices.

There are some who hold up the bugbear of monopoly and argue that marketing costs should be *increased* as an insurance measure. The thought seems to be that we should be willing to support an inefficient system, for fear an efficient system will eventually become a monopoly. It is also held that high marketing costs are necessary in order to put new products in the hands of consumers. High pressure sales methods were required to place such things as

vacuum cleaners, typewriters, cash registers, electric irons, washing machines and a host of other items, on the market. The argument may have some merit but it should be noted that the high marketing expense was necessary only when the items were new and customers had to be "educated" to their desirability and use. As soon as they became well known and established, the high, specialty selling expense was no longer necessary. By reducing selling costs, prices to consumers could be reduced and more profit realized. The path of reducing marketing costs has possibilities that can well be studied intensively by management in seeking the greener pastures of profit.

In this connection, I should point out that one of the most important preliminaries to such study is to develop accurate costing figures in the sales field. For years, intensive studies of manufacturing costs have been made and accurate figures determined. But when it comes to commercial costs of administration and selling we spread expenses, blanket fashion, over the whole field. The general practice has been to lump all selling and administrative expense and determine an average percentage rate to the sales dollar. When it comes to accurately determining profits and losses by product lines, the relative costs of territories and branches and the effectiveness of salesmen, the average method is useless and leads to dangerous conclusions. It seems self-evident that an activity which involves 50% or more of the total cost of producing and marketing is deserving of careful cost study. It is vital to have *facts* rather than opinions, if we would avoid mistakes.

In mentioning the use of costly high pressure sales methods a few moments ago, I said they sometimes were necessary to the introduction of a new item, but when customers had been "educated" to their desirability and use the sales practice could be discontinued in the interests of effecting savings. That word "educated" is the nucleus of my next thought concerning "More Profit" and is the foundation for a whole series of important activities in the sales field.

FROM PRICES TO COSTS

We shall assume that we've taken steps to secure reasonably accurate costing information and when we look it over, we find the selling costs on certain items are quite high. It becomes apparent those lines are not profitable. We can cut the offending items out of our catalogue if we wish and that may ultimately prove to be the proper answer. However, before taking that drastic a step, there are other solutions worthy of consideration. Perhaps the volume is important from a production standpoint and it may affect other items adversely if discontinued. It pays to go slowly and follow the plan of considering each change so well that no further modification need be made. One practical answer to the problem we are discussing was dramatically developed by Wallace Holliday right in your own state. He took the Standard of Ohio and in twenty years, quintupled its business and made it a force in the state, instead of a company on the verge of liquidation. Pricewise Sohio was in dire straits when Holliday took over; costs were exorbitant and consumer prices were out of line. He reasoned that, and I quote, "Short-range prices are set by the market and costs must be cut to meet prices. If a company is to survive it must meet the market in which it operates and work back from that to cut its costs." Holliday's solution worked for Sohio and with good reason.

Other students of the business scene have arrived at a similar conclusion. It is apparent that, under our system of business, production costs do not have such a direct effect as some people suppose. If you could take your production cost and then add a sum to cover selling expense and a fair profit, success would be easily attained. Actually, as Holliday said, short range pricing has little to do with costs but much to do with the market and competition. If you are going to stay in business you must be competitive and costs must be cut until you are competitive and earn a profit or you go under. Over a long period, and under the competitive system, prices tend to equal the cost of production of the marginal producers. These are the non-profit producers who sell so low they are barely managing to stay in business. It is evident that if a producer cannot adjust his production and marketing costs to meet such a situation, he must either shift to products he *can* produce more efficiently or accept the inevitable and go out of business.

There is another factor bearing on prices which must be studied and that is the effect of demand. In order to find a buyer, goods must have a use value. They must satisfy a need or desire. Since consumers are always faced with the problem of making their limited funds supply their unlimited needs and desires, they are forced to adopt a preferential system of selection in order to get the most for their money, and satisfy their most pressing needs. Therefore, to sell a product in volume, it must be available within the income and demand limits of enough buyers to absorb the supply. A change in the price of the product brings into the market, or excludes from it, people who formerly were unable to afford the item, or who are made unable to afford it by the price increase.

It becomes apparent we must educate ourselves to view our marketing problems factually and realistically. We must study and learn our production costs, our marketing costs, our competitive positions and the possibilities that surround each situation. We must educate ourselves to secure facts and act on those facts rather than on opinions. Only in this way can we be reasonably sure we will be able to extract "More Profit" from improved marketing methods. We must employ self education in these and many other matters.

What about our salespeople and our customers, can or should we do anything to educate them?

What we need to do depends of course on what sort of business we are in and what kind of sales organization we have. If we sell by direct contact, we employ people to engage in personal salesmanship. This may be in the retail field or the wholesale field. Our customers may be individuals, or business firms, or distributing organizations of one kind or another. If we sell by indirect contact, we use advertising to exert impersonal salesmanship. A salesman can search out buyers, select the appeal best suited to the prospect, answer questions, demonstrate the use of products and do many other things to influence the sale favorably.

The principal drawback to the use of salesmen is the expense involved. While some organizations use only one type of selling, either salesmen or advertising, I think the most effective approach calls for a combination of the two.

What kind of education of salespeople should we undertake? I am sure no one will dispute the advisability and value of having well informed salespeople, who can explain the benefits and merits of the product. It will pay us well to devote time and money to their training, so as to be sure they have the fundamentals. They should be thoroughly versed in the strength of the product and *also its weaknesses,* so they can handle themselves intelligently. Above all they should be trained to *tell the truth* about their proposition. I don't mean the "commercial" truth, but the *honest* truth, that enables them to hold their heads up and look a man in the eye. If the product doesn't have that kind of merit, it isn't *worth* selling! One of the greatest injuries to selling is the belief some people have that salesmen will say anything to make a sale. I won't have a man in my organization with that attitude, if I know it.

We must educate our salespeople in the art and science of selling and teach them the technique of setting up a sale. He must learn how to start a sale and then do and say the proper things, to arouse interest and create a desire, strong enough to enable him to close the sale. He must be taught how and when to use samples, conduct demonstrations and how to overcome objections without creating resentment.

I have just mentioned demonstrations. One of the activities management should spark plug, in order to improve salesmanship, is a study of the possibilities in the product, for demonstrations which will carry the message unmistakably. I have in mind a demonstration such as A. J. Alsdorf worked out for his salesmen, when he took over the Presidency of the Cory Corporation, whose principal product is coffee brewers. In five years sales were carried from the 2½ million a year mark, to somewhere near 12 million dollar line and this was accomplished in the highly competitive appliance field. One of the big sales obstacles was the fact people did not like glass, because of the likelihood of breakage. Cory salesmen put on a demonstration which involved the use of a block of wood and some nails. Before the dealer's eyes the nails were driven into the wood — with Cory Glass Brewers for hammers! This simple demonstration effectively scotched the breakage idea and when Cory salesmen left the dealers' presence, they carried orders with them. It is true that all products do not lend themselves to such dramatic presentations, but it is amazing what an ingenious research man, who approaches the sales problem with the right viewpoint, can do.

EFFECTIVE REPORTS

Another thing which should be taught to sales people is what kind of reports are most helpful to management. In the great majority of cases when sales reports are mentioned, the thing that is visualized is the daily report which sets down in a dry routine fashion how many calls the man made, who he called on, how many orders he took, how many miles he drove, how much he spent for meals, etc. Those things may be necessary or desirable in your overall sales control picture, but they are not the type of reports I have in mind. In our own organization we have a system whereby our key men render a narrative-type report at certain intervals. In some cases the reports come in weekly; in other cases every two weeks. These reports are written in the form of a newsy letter which conveys to the central office the salesman's view of what is going on in his territory as he sees it.

He briefly summarizes important sales problems with important customers and tells what he is doing or needs to do or what help he anticipates requiring. He devotes a section of his letter to competitive news and tells us what our competitors are doing, what products they are pushing actively, what he thinks we need to do to meet the situation. He devotes a part of his report to conveying data about the price picture, both as regards to competitive accounts as well as our own problems. In short, what we try to train him to do is to tell us about things that have come to his attention which, in his opinion, are important. Some of these reports give rise to programs of research or they spark plug extensive sales activity of one kind or another which lead to more profitable sales. We have come to look for these particular reports with a great deal of interest. It is probably needless to point out that they also serve as a yardstick to indicate the development of the salesman's personality and good judgment. The kind and character of the information he secures, and the way it is presented, tell us a great deal about the man, which is important to know in building our organization.

There are innumerable other things which should be taught a sales organization that are worthy of discussion and have a direct bearing on our subject. Such things as training the men to operate close to home markets and teaching them how to route themselves most effectively so as to reduce travelling expense and gain selling time are important. It is important, from a psychological standpoint to give the men stimulating information about themselves and their jobs, so they can do a little personal evaluation. For example, we have worked out methods of informing the individual salesman about a number of important things, such as the ratio of his salary and expense to revenue, how much it costs him to sell a gallon of oil in his territory and how much revenue we secure from that gallon on the average. We are able to indicate his selling cost per call, and other similar interesting data. With this kind of information in his possession, it is not hard to show a man what he must do to become profitable to the company. Since this system was started last Fall, a worthwhile reduction in the selling cost per gallon, and the percentage of salary and expense to revenue, has taken place.

If marketing costs are too high there is much evidence that a considerable part of the cost can be laid at the door of the customer. One item is the result of providing materials in a variety of forms to suit the individual taste. It is obviously impossible to make clothes or shoes, hats or furniture to one standard pattern in the same way that Standards have been set for the manufacture of common brick or steel rails. Some things lend themselves to standardization; others do not, but it goes without saying that costs are increased when manufacturers must make things in a wide range of brands, sizes and shapes. Another cost which can be laid at the consumer's door is imposed by seasonal considerations.

The manufacturer, however, must work far in advance of those dates in order to be ready at the time the demand develops. In so doing, he must incur warehouse costs as well as assume the risk of forecasting what people will like when the season arrives. Another consumer habit which increases marketing costs is the privilege of buying materials in small quantities and from day to day.

Many women make a daily trip to the grocery store and drug store to purchase articles for which there is a regularly recurring need. It is highly possible they can effect savings by purchasing these articles in larger packages or greater quantities, but so long as they insist upon the convenience of daily shopping, we need many more retail outlets and must increase retail selling costs more than would otherwise be the case. Other serious costs from the consumer's standpoint result because of people's ignorance of how to buy. One customer in a retail store may take an hour of the salesman's time to make a two dollar purchase, while another customer, who knows what he wants, will discharge the task in five minutes.

Obviously a campaign to educate shoppers -and consumers in better ways of buying would have great possibilities. I do not think the project is an impossible one because people's buying habits *can* be influenced if the right technique is employed. You all remember when Christmas shopping was done in the last day or two before Christmas, but the slogan, "Do your Christmas shopping early," supported by well reasoned statements and appeals has gradually borne fruit. Now shopping takes place earlier and, as a consequence, people buy more than they formerly did when they had to act in haste. A similar campaign, which would teach people to save money by buying in larger packages or quantities and think out their shopping needs beforehand, would be well worth starting. It would hold considerable promise of reducing selling expense and increasing profits.

I do not think the business man is without blame in this situation because, in all too many cases, he had encouraged people to shop leisurely and to place small value on such things as free delivery service, the return privilege, etc. The customer probably has no idea what these things cost and it might be that some business houses would be surprised to develop the facts, as to cost, for themselves.

IMPORTANCE OF DISTRIBUTION

For many years, a considerable section of management has viewed their operations as being primarily problems in manufacturing. Having made the article, they hired someone to sell it. In many cases, management kept its attention focused more closely on the production side of the business, and as a result, very worthwhile gains have been made in reducing production expense. However, as has already been pointed out, the study of marketing has developed the fact that marketing costs are ranging from 50% to 85% of the total cost of producing and marketing an article. Perhaps, then, this will be a good time for management to begin to think of its business *as being the business of selling*, rather than just the business of manufacturing. If it is approached from that angle then one of the first steps to be taken is to put the emphasis on accomplishment. To do that, exact knowledge must be had of what is going on and that brings us back to the thought I mentioned earlier involving the necessity of having good costing practices applied to the sales end of our businesses. Savings may be possible in the field of transportation and storage of goods. Manufacturing larger quantities, arranging for central warehouses to reduce LCL handling, and the adoption of powered warehouse handling equipment are only a few of the labor saving devices which come to mind and which can effect great economies.

In connection with the sales job itself, I believe that when management approaches the business of selling along these lines and when they show their sales force they are deeply and sympathetically interested in sales problems, a great improvement in the selling atmosphere will result. There will be many activities that management will want to encourage which will be important in electrifying a sales organization. The establishment of good, sound, recognition activities, such as a merit club or an achievement club for satisfactory sales performance will be most stimulating. Contests of various kinds, *in which management takes a direct and personal interest*, will be most effective. The trouble in too many cases is that sales managers struggle to produce a showing, but the men higher up brush the efforts and achievements to one side, because they are more concerned with problems of production.

Management can well afford to interest themselves in a study of the tools their sales organizations may need to do their job most effectively, and then appropriate the necessary sums to procure those tools. The Black & Decker people, for example, provided a cut-a-way tool and a stroboscope, so the tool could operate and the working mechanism could be studied under the stroboscope, to create the illusion of slow-motion. In this way, their sales force was trained to know exactly what to expect when the tool was operated: They developed fine sales stories as a result.

Many other companies have gone to similar or greater lengths to train their sales organizations effectively and such activities pay dividends. Other tools which deserve management interest are such things as sound motion picture films or sound slide films for the education of sales people and customers alike. Many products are so bulky and cumbersome they cannot be brought into the customer's office for demonstration or observation. Under these circumstances, a motion picture film or a sound slide film will be a logical solution and an effective sales tool.

Last but not least, careful thought should be given to the compensation basis. Perhaps it is not possible to pinpoint the man actually responsible for the sale. In that case, a straight salary is probably the only answer to the problem. However, the very nature of sales work and the intensely personal approach which pays off so handsomely when it is the right kind, makes it desirable to adopt some sort of an incentive plan if one can be worked out. Straight commission selling has numerous drawbacks, although some industries seem to find it quite satisfactory. However, the established business firm, consistently operating in the same territory year after year will probably find a combination of minimum salary, or drawing account, and a commission, for performance beyond a set quota, the best. Such a plan provides the man, who produces, with commensurate rewards for his efforts and encourages him to continue to exert himself. It goes without saying that any such plan should only be adopted after careful study and a thorough evaluation of all factors.

This is particularly true if it involves a change in the compensation rates of an established business. The very traits of human nature which make man fight for recognition in merit clubs and on achievement rolls will encourage him to give of his best when he knows his pay check will reflect the results of his efforts and do it immediately.

Business Ethics: Fact or Fiction?

By MAURICE BAUM

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A comprehensive view of many little-known areas where constructive self-examination and self-discipline operate successfully.

PRIOR TO 1929, mention of the term "business ethics" generally provoked a smile of derision or an expression of blank incredulity. Today the term is likely to arouse memories of New Deal legislative reforms, or to focus attention on some recent governmental administrative edict. Seldom does it suggest much more than a reference to the questionable character of prevailing principles and practices in some field of business activity.

That "business ethics" might involve the voluntary attempt on the part of business men themselves to sustain and improve desirable standards of economic behavior, would never occur to the sceptic and the critic of American business morality.

CYNIC AND SCEPTIC

The explanation of the older hostile, cynical attitude toward the subject of "business ethics" lies in the fact that most citizens have been inclined to judge the morality of business by some religious code of ethics, such as the Sermon on the Mount. Finding little or no actual agreement with their self-chosen code, these individuals declare business ethics to be wicked or mischievous.

What makes business morality necessarily distinct from a religious morality, or even a professional type of ethics, is the very fact that men are expected to behave differently when buying and selling, for example, than they do when they are playing the role of friend, husband, parent, loyal citizen, or member of a profession like medicine.

A religious ethics would necessarily stress such personal virtues as generosity and helpfulness, self-sacrifice and love, which are irrelevant, if not sometimes inimical, to the activities of men who must compete and make a profit if they are to remain in business. Knowledge, ingenuity, industriousness, efficiency are the virtues more likely to distinguish the true business man. For as Edward Filene would put it, a business man might be a *good man* personally, in the religious sense of the term "good", but he is not really a *good business man* until he can produce needed or desired goods and services at a price people can afford to pay, and can do so as well or better than any competitor without using unfair methods of competition or going bankrupt himself. Whether this man is also a loyal husband, a responsible father, a generous contributor to worthy causes, and a faithful church attendant falls outside the scope of a judgment of his ethical worth in business.

The incredulous sceptic of business ethics, on the other hand, finds it impossible to believe that an activity motivated primarily by the desire for material profit, under competitive circumstances, could ever be regarded as having desirable aims and achievements. Surely such activity is at best an a-moral area of human effort. In brief, business by its intrinsic nature is incapable of producing an acceptable sound morality.

Here again we are confronted by the unfortunate outcome of an inherited pernicious habit of thought: Why should the scope of true moral judgment exclude conduct devoted to the necessary activity of making a living that one may live at all, and perhaps prosper enough to afford the time and expense needed to cultivate the most refined cultural interests.

Obviously, if we are to restrict the term morality to only those personal activities related to sex, liquor, and gambling, there can be no ethical problems concerning selling, competition, and advertising as such. But on what legitimate grounds can we justly eliminate so much of human activity today from rational moral judgment? The ultimate consequence of such a narrow conception of morality is to regard a man as good who violates no conventional standards of sex conduct, although he may be guilty of using blatant lies in his advertising and the crudest type of sex appeal in his company-sponsored television entertainment.

HISTORY OF BUSINESS ETHICS

As a matter of historical record, the morality of American business has varied with the development of this country and the cultural status of its population. Methods of selling, for example, used by peddlars during the pioneer period when the risks of travel were great, merchandise not clearly marked or standardized, and customers uneducated, were supplanted by better methods when stores appeared with a fixed location in a given community, and repeat sales were made to consumers who had benefited from public education. Still higher standards of selling were expected when national advertising, standardized products, and factory-trained salesmen appeared on the American business scene. New conditions of existence plus new methods of manufacture and distribution have shaped the continuous evolution of the American business man's economic conscience.

At first, moral progress was slow, and depended largely on the efforts of certain individually courageous men who sought to improve first their own, and later their competitors', habits of doing business in the direction of greater consumer value and satisfaction. New poli-

cies regarding the pricing, display, and selling of merchandise inaugurated by such men as A. T. Stewart, John Wanamaker, Marshall Field and Edward Filene radically transformed much of the business ethics of their age and ours. The policy of the one price system, of plainly marked tags, of courteous informative selling, and of genuine sales reductions so familiar today were all once regarded as dangerous innovations.

In more recent years, improvements in standards of business ethics have depended less and less on the unorganized, single-handed heroic efforts of individual reformers in business. Certain organized agencies within and without government have promoted a steady, truly remarkable advance in business ethics which deserves to be much better known and appreciated by all students of the American economic system.

THE FEDERAL TRADE COMMISSION

By far the most important political agency has been the Federal Trade Commission which began its most effective ethical work after 1925. Ever since the establishment of its Trade Practice Conference Division in 1926, this agency has attempted most successfully to enlist the cooperation of business men, through their trade association groups, and to inaugurate programs designed to prevent and eliminate the undesirable practices which they themselves recognized as detrimental to the consumer and their own reputations.

The fact is that trade-practice rules for more than 150 industries,[1] consisting of both mandatory, legally enforceable and voluntary non-legal regulations, have been established through a democratic systematic procedure.[2] This is solid testimony to the ability of government and business to work together in the joint solution of difficult problems concerned with defining and enforcing needed workable rules of competition that would be fair to competitors, buyers, and the public in general. This is a truly outstanding example of a continuous, organized effort to provide the incentive and the opportunity for business men to engage in beneficial collective self-examination and self-disciplining to correct undesirable business principles and practices.

BETTER BUSINESS BUREAUS

An even greater testimony to the voluntary, earnest efforts of business men themselves to scrutinize and improve their standards of economic morality, is furnished by the history of Better Business Bureaus.[3] These bureaus were first organized in 1914 as an outcome of the work of the National Vigilance Advertising Clubs of America. The latter organization had inaugurated a campaign to combat misleading, deceptive, and fraudulent national advertising then so prevalent in the United States.[4]

When local Better Business Bureaus were created, they were established as autonomous, self-supporting organizations with no dependence in any form on local, state, or federal governments. Both their financial support and the formulation and application of their policies, remained the sole responsibility of their local business membership. Here was true self-regulation in behalf of higher standards of business ethics.

From organizations which at first confined their efforts mainly to the supervision of local advertising, the control of irresponsible stock and bond salesmen, and the elimination of all types of predatory peddling, the Better Business Bureaus have greatly expanded their programs of action[5] to achieve more constructive ethical goals. So they have helped local business men to frame needed codes of their own to cope with local unethical trade practices in a given field; published fact bulletins about a large number of products and services to help enlighten consumers;[6] provided free talks on better business practices to schools and given similar radio addresses; maintained a comprehensive file of all complaints, and their adjustments, so that the public could inquire about the known record of a specific individual or corporation in business; printed a complete, effective ethical *Guide for Retail Advertising and Selling;* now in its fourth revised edition; sponsored a program of honest consumer education which deals objectively and fairly with both the merits and the defects of the Free Enterprise System in America. This latter program was inaugurated by the National Better Business Bureau in 1942 to combat a growing misunderstanding of business among students since depression years.

Through the support of many different kinds of local businesses, with the guidance of professional managers and their trained personnel, and the cooperation of newspapers and local civic authorities, the Better Business Bureaus, established in over 90 cities, have made a bright record of democratic, collective achievement in raising the ethical standards of business. The most astonishing aspect of this accomplishment is the fact that the members of these bureaus have accepted criticism and been publicly penalized for violations of the policies which their own bureaus had formulated. Is it not remarkable for business to hire some one to help keep its conscience untarnished!

TRUE NATURE OF BUSINESS ETHICS

When one surveys the field of Business Ethics as a whole,[7] he discovers that the

[1] Contrary to popular opinion, code-making occurred even before the 1926 action taken by the Federal Trade Commission. Service clubs, like Rotary International, did much in the early twenties to stimulate and direct the writing of codes of business ethics by various groups. Most of these pre-New Deal, non-N.I.R.A. codes, however, failed to achieve their ethical aim of raising the standards in given trades because their provisions were too sentimental and vague, lacked specific means of enforcement, and included no deterrent penalties.

[2] For a detailed account of the aims and procedures of the Federal Trade Commission with respect to code-making, see, Annual Federal Trade Commission Report for 1948, pp. 55-56.

[3] This history may be found partially recorded in the following sources: *Here's Help for Business, Employees, the Public* (pamphlet published in 1948 by the National Better Business Bureau); *Manual of Operation,* copyright 1947, by the Association of Better Business Bureaus.

[4] For an authentic account of the formation and consequences of this campaign, see *The Fight for Truth in Advertising,* by H. J. Kenner, Round Table Press, Inc., 1936.

[5] Some conception of the scope of this activity can be gained from the following figures published in *Facts You Should Know About Your Better Business Bureau,* p. 13: "In an average year, 106 radio stations in 81 cities gave 1400 hours of time to Better Business Bureaus, while 134 newspapers carried 6,000,000 lines of Better Business Bureau advertising: 5,340 news items were published; 2,000,000 bulletins issued; 589,000 pamphlets distributed; 120,000 posters displayed, and 680,000 Fact Booklets distributed. These figures represent only part of one year's operations."

[6] These "Fact" bulletins deal with Cosmetics, Jewelry, Furs, Health Cures, Borrowing, Budgeting, Securities, Investment (Trust Companies), etc. (26 in all). They are still sold for 5 cents a copy.

[7] For a comprehensive, detailed discussion of Business Ethics with original source material, see *Readings in Business Ethics* by Maurice Baum, The William C. Brown Company, Dubuque, Iowa, 1950.

problems there must be classified and dealt with under such headings as advertising, competition, and selling.[8] For the moral problems of business are created by specific facts and particular tendencies peculiar to each of the main specialized divisions of wholesale and retail activity.

One final consideration needs to be kept in mind when dealing with the field of business ethics. Contrary to much popular opinion, an ethical problem does not occur when there is a plain violation of a known law—that situation calls for better law enforcement or revision of the original law by appropriate procedures. But when there is a definite conflict of demands, no one of which is in itself wrong or evil, there is a true ethical problem created of reconciling such demands and harmonizing the conduct of all the parties involved in that situation.

In brief, true problems of business ethics are not problems of purely personal temptation; they are not necessarily created by corrupt individuals, nor do they occur in situations where a known good or verified right are stubbornly opposed by a known evil or a verified wrong.

PROBLEMS OF PERSONAL SELLING

Given this interpretation of a problem in business ethics, it is possible to indicate briefly the more important problems in the fields of selling, competition, and advertising. As for personal selling, we need to determine the sound ethical solutions for such questions as: What kind, and how much, information is a prospective buyer entitled to? Are all selling appeals equally desirable, and if not, why not? Does the consumer himself have any moral duties in regard to his habits of purchasing, his relations to the salesman, and his attitude toward the store?

At present, the following general principles have been applied to the solution of such problems: A customer is entitled to whatever information is relative to the price and utility of an item for sale when that information might affect his final decision. For example, if a new camera is being sold at a great reduction in price because this model is being discontinued, with the likelihood that repairs will henceforth be more difficult to obtain, this fact should be made known to the consumer. It will not detract from the truthfulness of the reduction and may very well be irrelevant to the customer's wants or needs.

Selling appeals which exploit any native, or acquired, weakness of the customer are condemned as unethical because they intensify such weaknesses and do not permit the sale of goods and services on their own comparative, objective merits. Nevertheless, "fear", and "flattery" may be used, as in selling tires or safety devices in the first instance, or clothing in the second, if the sale is ultimately made on the basis of true facts and objective reasoning relative to actual customer need and want.

Finally, the consumer is morally bound to avail himself of all reliable information at his disposal relative to the qualities of what he is about to purchase; to ask for no special price reductions or extra services to which he is not entitled because these are not granted to others; and to patronize those individuals and stores which consistently aim to sell the best available goods and services at a reasonable profit without resorting to dishonorable competitive methods of undercost selling, coercion by force, or intimidation. Morally responsible consumers do not waste the time of salespeople, or behave discourteously toward them, nor do they add to the financial cost of doing business by returning hastily purchased merchandise.

CLAIMS, LAWS & SIZE

Perhaps the three most critical ethical problems in the field of business competition are those of Comparative Claims, the Fair Trade Laws, and Bigness. By the first problem is meant the difficulty of proving the superiority of one's goods and services over those of competitors. We must grant that, according to capitalistic theory, comparison of products and services is eminently desirable as a means of encouraging better products and services, enlarging consumer satisfaction, and making for more initiative, originality, and production.

On the other hand, how can the resemblances and differences between products, for example the various soaps and brands of cigarettes, be accurately determined; under what circumstances; by whom, and for what needed or wanted purposes? Much remains to be done yet in solving this problem if the far too numerous exaggerated and misleading comparative claims, so raucously asserted in print and on the radio, are to be controlled or eliminated.

Fair Trade Laws make it legally possible to fix prices at the retail level by cooperation of producer with a given retail or wholesale group, or even individual seller. Such laws seem to have resulted in higher prices to the consumer and less flexibility in marketing. Thus the moral problem has been raised as to just who benefits the most from these laws, and why. Competitors, producers, wholesalers, retailers, the public and the Federal government now challenge the ethics of the comparatively new Fair Trade Laws.[9]

It is the problem of Bigness with which the Federal government has recently been even more concerned as a possible moral threat to true freedom of enterprise. Great "merger movements" based on the acquisition of physical assets rather than on the purchase of competitors' stocks, has resulted, according to the Federal Trade Commission, in the creation of huge corporate monopolies which seem to threaten the independence of rival small firms, and to prevent the appearance of any new competitors. These powerful groups by doing a majority of the business in a given field can control, it is claimed, the production and price of articles for their own benefit, not the public's, and through their wealth and power indirectly influence government policies toward business. The moral problem, therefore, becomes one of accepting the need and value of larger units of production and distribution required to serve mass consumption better, without permitting a possible misuse of power, the pursuit of unreasonable profits, and the prevention of the type of competition which acts as an incentive to increase production, improve quality, or lower costs of manufacture and distribution. Consumers and small business, the Fed-

[8] Problems involving labor and personnel relations, as well as the larger issues of the relation of government to business, require such highly technical and often legal analyses that only experienced experts have the necessary qualifications to discuss these matters. When the broader aims of business and government are under consideration, one enters the realm of social and political philosophy rather than that of business ethics in the proper meaning of the term.

[9] See, for example, *Fortune* Magazine, January and April issues, 1949.

eral Trade Commission believes,[10] may need more legal protection against unmistakable, and apparently irresistible, trends in the direction of concentration of industrial resources and business assets in the hands of fewer and fewer gigantic corporations.

PROBLEMS IN ADVERTISING

No field of business today offers as many, and as difficult, problems of moral adjustment and control as that of advertising. In addition to inheriting many of the ethical problems related to selling and competition, previously outlined, there are other new, complex, and threatening difficulties. As one example, advertising has been used in recent years by both organized employers and organized unions to condemn and support the same strike; likewise, business groups, and at least one profession (medicine), have utilized advertising to combat proposed Federal and State regulations. All this activity has sharpened the question of truth in advertising and altered somewhat the traditional aim by which successful advertising has been previously judged.

Because advertising is so much more ubiquitous and tireless than any living salesman could ever become, it has created problems of good taste which television will only broaden and intensify. Questions of nudity, vulgarity, and suggestiveness in advertisements for lingerie, bathing suits and cosmetics do occur because illustrations and text appear in home-consumed magazines and newspapers used by both sexes of all ages and backgrounds.

Since comprehensive and continuous national advertising campaigns emphasize effectively, after a given period of time, debatable trends in eating, drinking, reading and recreation, certain ethical problems occur: What appetites should be stimulated, and to what extent? These problems cannot be ignored or avoided either by those who seek to profit for selfish reasons from such campaigns, or by those who would curtail this type of advertising to further narrow moral and religious goals of their own. The past success of advertising in persuading women to smoke cigarettes; the current emphasis on the use of hard liquor as one virtue of "the man of distinction"; and the conspicuous association of buoyant young girls with beer in popular media of advertising, are examples which well illustrate some of the graver moral problems in recent advertising.[11]

Lately, new techniques of advertising have provoked ethical controversies regarding the right of certain advertisers to use public conveyances and train stations as places in which to broadcast their products under conditions which make it almost impossible for the individuals present to ignore these commercial messages, so often quite irritating to ear and intelligence.

Truly, an objective, comprehensive survey of the history and present nature of American business morality should convince any accurate observer and fair-minded, logical thinker that this morality has been, and still is, dynamic and progressive in aim and accomplishment. Business Ethics is a Fact, not a Fiction.

[10] See Special Report submitted July 1, 1946, by the Federal Trade Commission to the Monopoly Subcommittee of the House Select Committee on Small Business, and the F.T.C. Annual Report for 1947, pp. 12, 14-18.

[11] On these trends, one might well read what a famous advertiser, Mr. John Orr Young, has said. See, *Adventures in Advertising*, Harper and Brothers, 1949, pp. 13, 168, 169.

"Reprint Bestsellers"

The following reprints are available, subject to prior sale. Each article on this list has been reprinted, some of them several times, in response to steady demands for copies from management men all over the world.

A. What Makes Successful and Unsuccessful Executives? By Burleigh B. Gardner, Executive Director, Social Research, Inc., Chicago, 1948.

B. Human Relations in Industry: A Challenge for Free Enterprise, "Industrial Relations and the Social Psychologist." By Dr. Douglas McGregor, President, Antioch College, Yellow Springs, Ohio.

C. Resistance to Change—Its Analysis and Prevention, by Alvin Zander, Research Center for Group Dynamics, University of Michigan.

I. Management's Common Denominators, The Evaluation Table in the Management Audit, by Jackson Martindell, President, American Institute of Management.

J. Line and Staff—Their Roles in the Organization Structure, by J. K. Louden, Assistant to the President, York Corporation.

L. Wartime Lessons in Wage Administration, by C. Canby Balderston, Dean, Wharton School of Finance and Commerce, University of Pennsylvania, and Former Assistant Chief, Civilian Personnel Branch, Industrial Personnel Division, Army Service Forces.

N. The Industrial Use of Personality Tests, by William E. Henry, Department of Psychology and Committee on Human Development, University of Chicago, and Harriett B. Moore, Social Research, Inc.

O. Staff Organization for Control, by J. K. Louden, Assistant to the President, York Corp.

P. Efficient Planning for Budgeting, by Charles C. James, Associate Counsellor, Stevenson, Jordan and Harrison.

Q. Budget Navigation by Dead Reckoning, by Alwyn M. Hartogensis, Ebasco Services, Inc.

R. Democratic Principles in Business Management, by James C. Worthy, Sears, Roebuck and Company.

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The Management Bookshelf

The Labor Leader, by ELI GINZBERG. 191 pages. New York, 1948: MacMillan. $3.00

The Life Stories of America's 50 Foremost Business Leaders, edited by B. C. FORBES. 483 pages. New York, 1948: B. C. Forbes and Sons. $5.00

THE SEARCH FOR a solution to the chronic conflict between labor and management in Western industrial society has, surprisingly enough, only rarely included an investigation of the characteristics of the major actors in the drama: business and labor leaders. Although labor-management struggles often become personified in public thought as battles between a labor leader and a business executive, remarkably little effort has been devoted to an attempt to understand the reasons for their behavior. Biographers have described, often with great literary skill, the success story of the empire builders of industry and, occasionally, the rise of a colorful labor leader, but all too frequently these accounts are designed primarily as an apology for or a condemnation of the leader being described. Until objective and systematic characterizations of leaders and the functions of leadership are amassed and analyzed, no genuine understanding of industrial society can be achieved.

The two books reviewed here, though containing a good deal of interesting information, contribute little to a basic understanding of the nature of leadership. Both make generalizations about the leaders they describe, but neither employs the methods of social science research now available for a penetrating study of the subject. In fairness to the authors, it should be indicated that neither pretends to make use of these methods.

Forbes' book on business leaders is a collection of brief biographies of fifty businessmen selected as leaders in their fields. Each is preceded by an eloquent citation for the accomplishments noted. The biographies are largely factual, replete with anecdotes, and contain a smattering of the subject's "philosophy of life." In the introduction the editor compares this collection of leaders to a similar one obtained 30 years ago and notes the development of a professionalization of business leadership as reflected by fewer men who built or inherited the businesses they lead and by a higher level of formal education.

Ginzberg's study of labor leadership is prefaced by an unusual statement asserting in both an apologetic and an aggressive tone that his research methods lie outside the usual "code" that social scientists employ to govern their methodologies. Perhaps this statement is prompted by the unfortunate fact that the publication of the material was delayed several years by the war, making it appear somewhat out-of-date. Be that as it may, the book is a combination of armchair generalizations about the quality of leadership, a brief statistical analysis of some of the characteristics of executive-board members of ten national unions during the period 1900 to 1940, an extremely well-written case history of the organizing of a local union, and some observations and moralizings about the future requirements for responsible union leadership.

Both of these books give the reader a good "feel" for the leaders they are describing; neither provides significant categories of description for a more scientific understanding. From Forbes' summary one would conclude that the successful business leader should (and does) have not only liberal quantities of all the virtues prescribed by the Calvinist-Protestant ethic (integrity, self-denial, sincerity, industry, sobriety, etc., etc.) but also "higher qualities" of foresight, statesmanship, generalship, great mental and physical stamina, abnormal memory, personal magnetism, dynamic force, and others. Although Ginzberg's account of the labor leader does not enumerate so specifically the qualities required, his list would not be so different. His major thesis is that, first of all, the labor leader must have boundless energy and stamina and, in addition, that he must possess the skills of business and political leadership. The one clear difference between the two types of leaders revealed by the two books is the obvious one that most business leaders now-a-days have a college education while most labor leaders do not. The hypothesis might be pro-

(*Continued on page* 24)

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SOCIETY NEWS

NEW SAM CHAPTER

THE NEW BRUNSWICK CHAPTER, SAM's newest, will receive its charter on February 15th. Dillard E. Bird, national president, is scheduled to present the charter at a special "Charter Night" meeting in the Roger Smith Hotel at 6:30 P.M. Officers of the new chapter, which has 79 members as of its organization date, are:

President Carl E. Anderson, General Manager, Domestic Manufacturing, E. R. Squibb and Sons.

Vice-President Claude V. Swank, Vice-President in charge of Manufacturing and member of Board of Directors, Johnson & Johnson.

Secretary John D. Wait, Administrative Assistant to General Manager of Domestic Manufacturing, E. R. Squibb & Sons.

Treasurer Luther E. Beiswanger, Group Leader, Methods Engineering Department, Calco Chemical Division, American Cyanamid Co.

National Director Howard J. Baines, Division Head, Materials Control, Warehousing, Packaging and Package Development, Heyden Chemical Corp.

Directors: Fred B. Sackett, Manager, Parling Photo Products plant, E. I. du Pont de Nemours.

Richard N. Paulson, Manager, Methods Engineering Department, Calco Chemical Division, American Cyanamid Co.

Charles H. Grote, Industrial Engineering Supervisor, Johns-Manville Corp.

The new chapter is the result of exceptionally effective work on the part of its organizing committee. This committee was set up after a meeting between Carl E. Anderson and Dillard E. Bird established the foundation for the development of the new chapter.

Howard Baines served as Chairman of the organizing committee with J. D. Wait as Secretary. Other members of the committee included: John Penek, Richard Paulson, Fred Sackett, H. A. Estabrook, H. W. Baines, Paul Cox, Bruno Fila, E. H. MacNiece, Robert Moore, Charles Stoeffler, Prof. Joseph Vertrees and O. O. Vaught.

Dr. Lillian Gilbreth receives the Wallace Clark Award from John Willard at the NMC Annual Dinner.

DR. LILLIAN GILBRETH, distinguished consulting management engineer and pioneer member of SAM, received the Wallace Clark Award for outstanding contributions in the field of scientific management. The award was presented at the Annual Dinner of the National Management Council on January 10, 1951. It was presented to Dr. Gilbreth in recognition of over thirty years of service and contribution to the improvement and development of scientific management practices and application of its basic principles.

The Award has been established by Mrs. Pearl Franklin Clark in honor of her late husband, Wallace Clark, who was internationally known for many years as a leading management consultant.

Emerson Trophy Standings
Chapter Performance Award
As of November, 1950

CHAPTER	TOTAL
Washington	1048
Milwaukee	898
Greensboro	760
Detroit	743
New York	691
Pittsburgh	579
Philadelphia	570
Cincinnati	488

THE NEW LA SALLE COLLEGE STUDENT CHAPTER received their charter at a special "Charter Night" meeting, January 17th at Philadelphia. C. A. Slocum, National Executive Director, presented the charter to Salvator Bartucci, Chairman of the new student chapter.

John Slack, president of the Philadelphia chapter, which sponsored the new La Salle student group, welcomed them into the SAM organization. The principal speaker of the evening was John M. McIlvain, Chief Industrial Engineer, Atlantic Refining Company who spoke on, *Management and the Management Student, What Each Should Expect of the Other.*"

Many distinguished guests from the Philadelphia chapter and nearby industrial organizations attended the meeting.

La Salle College Chapter chairman, Salvator Bartucci receives charter from C. A. Slocum, SAM National Executive Director. John M. McIlvain (center) Chief Industrial Engineer, Atlantic Refining Co., was the principal speaker at the Charter Night Meeting.

Management Bookshelf

(*Continued from page 22*)

posed that the accident of birth in one rather than another social class is the primary determinant of whether a given man leads a business or a union.

Since such generalizations help little in understanding the problems of modern society, it is encouraging to note that recent advances in psychology, sociology, and cultural anthropology now make it possible to employ much better methods of collecting and analyzing data than those displayed in these books. Some especially notable studies are currently being conducted on business and military leadership, and it is to be hoped that their findings will soon be made generally available so that a systematic theory of the functions of leadership can be evolved and scientifically tested.

DORWIN CARTWRIGHT
Director of the Research Center for Group Dynamics of the University of Michigan

Mass Communications Research, Predicting Who Will Be Informed About Government, by CHARLES E. SWANSON & ASSOCIATES, Research Division — School of Journalism, University of Minnesota.

THIS REPORT is one of several on Mass Communications Research conducted under a contract from the Office of Naval Research.

The study undertakes to classify news about government, international, national and local, as a basis for determining readership of news about government. Two information tests were developed—one called a Names Test which required matching the name of an individual with a statement of his identification, usually his title, and the other an Events Test, or multiple choice test, covering prominent current events about governmental happenings.

A sampling of Minneapolis residents were interviewed on four separate occasions during the months of April and May, 1950. These four interviews yielded data on readership news about government in two separate issues of the "Minneapolis Star," scores on the information tests, disguised intelligence measures of the respondents, certain attitude responses, and indices of the extent of exposure to all mass media and certain demographic data on the respondents. Through a correlation analysis, the extent to which combinations of variables would predict scores on the information tests were computed and the variables accounting for the most variation in the information tests were determined. The computation of multiple regression coefficients for prediction provided the basis for the title of the report.

The acceptable statistical procedures for choosing the sample, for analyzing the items of the information tests, and for determining the significance of the different variables, both singly and in combination, were rigorously followed.

Since the validity of the conclusions depend almost entirely on the information tests (as the criterion variable) it seems appropriate to examine critically both the test items, their source and any bias that may have been introduced in the original selections.

The goals of the study demanded that the information tests deal with current happenings. Consequently, newspapers, news magazines and the "New York Times" Sunday Magazine published during January, February and March, 1950 were examined for names mentioned prominently and for prominent events given a large amount of news space. In thus selecting the items a bias was introduced in terms of the major interest and motivations of the editors in selecting the news personalities or events and in the prominence given them. Although such a bias is inevitable, the investigators make no mention of such bias nor do they qualify some of the correlations, such as the one with sex, which they obtain as being related to this bias of item selection. It would be expected that a names test or events test, developed from such material, would be focused toward materials of greater interest to men in the upper-income-education groups since this is the group which most closely identifies with editors in their way of life, interests, areas of striving, security and insecurity, etc.

The information tests do not seem sufficiently varied in the character of news which they tested. The Names Test which merely tested ability to identify a given governmental figure does not sample directly the important functional elements of news about government, namely: "what is going on and its relation to decisions I have to make." Furthermore, results on such a test may not correlate with data on this more essential type of information. The Events Test would be expected to supply this need, but of the 12 items included in the test, five require the memory of figures having to do with expenditures, revenue and budgets and one is a Names Test item in a multiple choice form.

Because of these basic limitations in the selection of the test molds and the items included, many of the subsequent conclusions are of doubtful significance.

It would seem to this reviewer that much more significant and serviceable findings would have resulted from the meticulous statistical analysis if the tests had been of a more varied form and the items had been selected in terms of the areas of security, interest and experience, in other words, the way of life of the persons to whom news is directed.

MAYHEW DERRYBERY
Chief, Division of Public Health Education, Federal Security Agency

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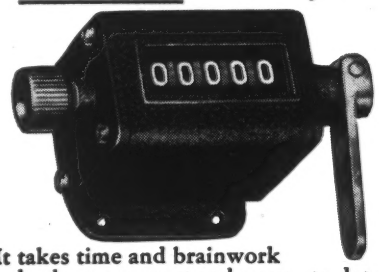

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1950 INDEX — Advanced Management

(Including papers published in the Proceedings of SAM's 1949 Annual Conference, November 1949, and Proceedings of SAM's Fifth Annual Time Study and Methods Conference, April 1950.)

This index lists the articles that appeared during the calendar year 1950 in Volume XV, Nos. 1-12.

Since it was decided to list each article under only one subject, using as few headings as possible, classification by subjects had to be done arbitrarily.

Every article except miscellaneous features has been indexed according to author, title, and subject.

Early in 1952, it is planned to publish a supplementary index for 1951.

HOW PROCEEDINGS ARE SHOWN—

The references to articles which appear in the published Proceedings of SAM Conferences are indicated by — Proc. 1949, Nov. — which refers to the Proceedings of the 1949 Annual SAM Conference, November, 1949, or — Proc. 1950, Apr. — which refers to the Fifth Annual Time Study and Methods Conference, April 1950.

To facilitate reference work, material which was published in the Proceedings is included in this index.

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Subscription rate: $8.00 per year. Single copies: 75 cents (members); $1.00 (non-members). An index to ADVANCED MANAGEMENT is published annually, and the contents are also indexed in *Industrial Arts Index* which is available at Public Libraries. Notification of address changes must be given four weeks in advance.

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***Selected as one of the Outstanding Management Books of the Year by a panel of management experts — see ADVANCED MANAGEMENT, January, 1951, pages 8 & 9.**

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WHAT DOES AN EXECUTIVE DO?

As everybody knows, an executive has practically nothing to do. That is except:

To decide what is to be done; to tell somebody to do it; to listen to reasons why it should not be done, why it should be done by somebody else, or why it should be done in a different way, and to prepare arguments in rebuttal that shall be convincing and conclusive —

To follow up to see if the thing has been done; to discover that it has not been done; to listen to excuses from the person who should have done it and did not do it —

To follow up a second time to see if the thing has been done; to discover that it has been done but done incorrectly; to point out how it should have been done; to conclude that as long as it has been done, it may as well be left as it is; to wonder if it is not time to get rid of a person who cannot do a thing correctly; to reflect that the person in fault has a wife and seven children, and that certainly no other executive in the world would put up with him for a moment; and that, in all probability, any successor would be just as bad or worse —

To consider how much simpler and better the thing would have been done had he done it himself in the first place; to reflect sadly that if he had done it himself he would have been able to do it right in twenty minutes, but that as things turned out he himself spent two days trying to find out why it was that it had taken somebody else three weeks to do it wrong; but to realize that such an idea would strike at the very foundation of the belief of all employees that an executive has nothing to do.

From *"Leading and Managing Men,"* By Douglas Lynch. This excerpt is attributed to F. F. Beirne.